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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 002480

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DEPT FOR EAP/CM, SCA/A, SCA/PB, AND S/SRAP JANE MARRIOTT

E.O. 12958: DECL: 08/31/2029

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SUBJECT: PRC INVESTMENT IN AFGHANISTAN AND PAKISTAN: AFGHAN
DIPLOMATS AND PRC SCHOLARS ON CORRUPTION, SECURITY

REF: SECSTATE 28858

Classified By: Economic Minister Counselor William Weinstein. Reasons
1.4 (b, d)

¶1. (C) Summary: Chinese companies are contributing to Afghanistan's corruption problem by bribing Afghan officials and cutting under-the-table deals, according to Beijing-based Afghan diplomats. Our Afghan contacts said Afghanistan needed China's investment but expressed disappointment with limited PRC assistance, arguing that China could do more to help Afghanistan with agriculture, education, and transportation links through the Wakhan Corridor. Afghan diplomats and Chinese scholars agreed that security remained the biggest concern for Chinese companies investing in Afghanistan and Pakistan. One Chinese scholar argued that Chinese firms were eager to invest in Pakistan but frustrated by cultural differences between them and their Pakistani employees. End summary.

China Contributing to Corruption in Afghanistan...

¶2. (C) While Afghanistan benefits from Chinese investment, Chinese companies are contributing to Afghanistan's corruption problem by bribing Afghan officials and cutting under-the-table deals, Afghan Commercial Attach Abdul Munir told EconOff August 24. Munir said that state-owned China Metallurgical Group Corporation (MCC)'s USD 3 billion investment in the Aynak copper mine was "100 percent corrupt." He said former Afghan Ambassador to China Eklil Hakimi, who departed Beijing three months ago to serve as Afghanistan's ambassador to Japan, was the "gatekeeper" for MCC and other Chinese companies eager to invest in Afghanistan's natural resources. Afghan Minister of Mines Ibrahim Adel and Logar Province Governor Atiqullah Lodin were among the many Afghan officials who regularly visited Beijing to "enjoy the hospitality of MCC and negotiate under-the-table deals." Munir commented that the new Afghan Ambassador Sultan Baheen was "the right man for the job" and less corrupt than his predecessor. He urged the United States and the international community to combat corruption by pushing for an international organization to monitor the bidding process for large investment contracts. (Comment: According to REFTEL, Afghanistan is not a candidate country for the Extractive Industries Transparency Initiative, but perhaps it should be. End comment.)

...But Afghanistan Needs Chinese Investment

¶3. (C) In spite of his concerns about corruption, Munir argued that Afghanistan needed Chinese investment in critical infrastructure. Besides MCC's investment in the Aynak copper mine, Chinese state-owned companies are also vying for large contracts to develop the Hajigak iron deposit in central

Afghanistan and oil and gas fields in northern Afghanistan. If Chinese companies are successful in winning these bids, total Chinese investment in Afghanistan could surpass USD 20 billion by 2014, making China the largest foreign investor in Afghanistan, according to Afghan EmbOff Mirwais Nab. He said that all of these projects would include construction of critical infrastructure - roads, bridges, railways, dams, schools, and hospitals - that would spur economic development and create thousands of local jobs.

Afghanistan Hopes for Increased Chinese Assistance

14. (C) Munir complained that China had only pledged USD 75 million in assistance over the next five years, a small amount given the strength of China's economy and size of its foreign assistance program. He expressed hope that China would contribute more to Afghanistan's agricultural development by building and restoring irrigation systems and dams. Afghan Ambassador Baheen on August 19 publicly called for closer Sino-Afghan education cooperation and asked the Chinese government to provide more scholarships for Afghan students to study in China.

Wakhan Corridor Transportation Links

15. (C) Ministry of State Security-affiliated China Institute of Contemporary International Relations (CICIR) scholar Wang Shida said China was concerned that construction of transportation links through the Wakhan Corridor would be too difficult technically given the region's high altitude and

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heavy snowfall in the winter. He noted that China was conducting a feasibility study and hoping that the Asia Development Bank would provide financing for the project. Afghan Commercial Attach Munir said Afghanistan was pushing China to build transportation links through the Wakhan Corridor, arguing that such a route would be much shorter and faster than routes through Central Asia. He downplayed Chinese concerns about the difficulty of working in such high altitudes, noting China's success in building roads and railways in Tibet.

Afghanistan: Security is China's Top Concern

16. (C) Afghan diplomats and Chinese scholars agreed that security was the biggest concern of Chinese companies investing in Afghanistan. Afghan EmbOff Nab said China welcomed Afghanistan's deployment of 1500 national police guards to help secure the area surrounding the Aynak copper mine but stressed that security concerns would continue to influence the pace at which MCC was willing to proceed with the project. According to Nab, MCC was cautiously waiting to see how the August 20 Afghanistan elections unfolded before the company started bringing Chinese workers to Afghanistan to work on the copper mine project. CICIR scholar Wang said that China's willingness to invest in Afghanistan would largely depend on the security situation, commenting that Chinese firms were prepared to invest in projects in the relatively safe regions of central, northern and western Afghanistan but were reluctant to invest in the south or east unless security improved. The Chinese government would likely continue to press Afghanistan and the United States to provide the security necessary to protect China's investments and to guarantee the safety of Chinese workers in Afghanistan.

Pakistan: PRC Urges Investment but Worried about Security

17. (C) Recognizing the importance of economic development for promoting stability, China was encouraging its companies to invest in Pakistan, according to CICIR scholar Du Bing. Du argued that the Haier-Ruba Special Economic Zone in Lahore,

in which more than 20 Chinese companies have committed to invest, was a successful example of Chinese investment that would benefit both countries. However, he noted that security remained a concern for Chinese companies, citing concerns about the safety of Chinese workers as one reason that China decided to "temporarily suspend" the Coastal Oil Refinery Project in Gwadar.

Clash of Business Cultures

18. (C) CICIR scholar Du, who recently returned from a research trip to Pakistan, said cultural differences were a source of tension between Chinese companies and their Pakistani employees. He said Chinese firms preferred to bring their own workers from China because these workers understood the companies' business culture and worked harder than Pakistanis. To maintain good relations with the Pakistani government, Chinese firms hired some local workers, but the Pakistanis often had difficulty integrating with the Chinese companies' culture. The Chinese companies complained that they had invested in training Pakistani engineers and other skilled workers, only to see them leave for jobs with U.S. or Japanese firms that paid higher salaries and offered more opportunities for advancement.

Zardari versus Musharraf

19. (C) Du said China would enjoy good relations with its close ally Pakistan regardless of who was president, but he acknowledged that Chinese officials saw former President Musharraf as "China's best friend" and that President Zardari did not yet enjoy this level of popularity in China.

HUNTSMAN